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No. 05-130

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In The Supreme Court of the United States

eBAY, INC. and HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF VARIOUS LAW & ECONOMICS PROFESSORS AS AMICI CURIAE IN SUPPORT OF RESPONDENT

RICHARD A. EPSTEIN
1111 East 60th Street
Chicago, IL 60637
(773) 702-9563

R. POLK WAGNER
3400 Chestnut Street
Philadelphia, PA 19104
(215) 898-4356

F. SCOTT KIEFF
Counsel of Record
One Brookings Drive, CB 1120
St. Louis, MO 63130
(314) 935-5052
Counsel for Amici Curiae

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INTEREST OF AMICI CURIAE

Amici are scholars at American law and business schools interested in patents, property, and the theory of the firm. Amici have no other stake in the outcome of this case,[1] but are interested in ensuring that patent law develops in a way that best promotes innovation. A full list of amici is appended to the signature page. Both petitioner and respondent have consented to the filing of this brief.

SUMMARY OF ARGUMENT

Under well-established patent law, the usual rule is that whenever a plaintiff shows that a defendant has infringed a valid patent, an injunction should issue in the absence of special circumstances. This rule is in fact consistent with the statutory requirement under Section 283 of the Patent Act that requires Courts to apply principles of equity to these cases. Those principles of equity always include some measure of judicial discretion, so that the key question is always how it should be implemented. The preferred approach is to require a defendant to articulate some discrete *category* of cases into which the infringer's case falls and within which a grant of injunctive relief would be inappropriate, rather than undertaking a costly and uncertain fact-specific inquiry that simply asks in general terms whether the issuance of an injunction is appropriate on a balancing of the equities or in the overall public interest.

This categorical approach is well reflected in the decided cases. Courts should stand ready to use their discretion to admit further (categorical) exceptions to the general rule. Yet it would be most unwise to deny an injunction because the court does not think that a patentee has practiced the invention with sufficient vigor, because of some alleged holdup, or holdout, problem, or because a judge thinks that the patent is of the wrong type. Introducing discretion into these areas makes the

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[1] Pursuant to Sup. Ct. R. 37.6, the amici represent that no person or entity other than the signatories has authored or paid for any part of this brief or its submission.

courts arbiters not of the patents but of industrial policy, on which they have little competence. The rule in *Continental Bag Co. v. Eastern Bag Co.*, 210 U.S. 405 (1908) has stood the test of time and should be reaffirmed.

ARGUMENT

The firmly-settled jurisprudence of the United States Court of Appeals for the Federal Circuit – that a permanent injunction should presumptively issue to enforce a patent adjudged to be valid and infringed – comports well with both statutory command and sound public policy. This Court should reject calls for a radical reconsideration of the Federal Circuit's case law in this area on two grounds. First, they misconstrue the relevant precedents of the Federal Circuit. Second they offer prescriptions for reform would be unwise as a matter of sound patent policy. We hope to illustrate the soundness of these propositions with reference to the decided cases, as well as to the Amici Curiae brief submitted by 52 Professors of Intellectual Property [hereinafter 52 IP Professors]. Their brief confuses the issues and muddies the waters in ways that weaken the structure of exclusive patent rights on which today's elaborate system of licenses and other voluntary agreements rest.

I. The Federal Circuit's Case Law Rightly Establishes a Rule that Injunctions Should Generally Issue Except in those Unusual Cases in which Good Cause is Shown for Denying that Form of Relief

The position of the Federal Circuit under review in this case reads as follows:

> Because the "right to exclude recognized in a patent is but the essence of the concept of property," the general rule is that a permanent injunction will issue once infringement and validity have been adjudged. *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989). To be sure, "courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995);

> . . . Thus, we have stated that a court may decline to enter an injunction when "a patentee's failure to practice the patented invention frustrates an important public need for the invention," such as the need to use an invention to protect public health. *Rite-Hite Corp.*, 56 F.3d at 1547.

MercExchange, LLC v. eBay, Inc., 401 F.3d 1323, 1338 (Fed. Cir. 2005).

In order to frame this dispute, it is necessary to set this principle in its proper context.

First, the question of permanent injunctive relief only comes up after the twin questions of validity and infringement have been resolved in the patentee's favor. On this appeal, we take no view on any of the underlying factual disputes between the parties on any other aspects of this case. Instead, we approach this dispute over injunctive relief on the premise that the parties have received a full and fair litigation on those underlying issues. Relitigation of those basic issues is accordingly precluded by well rehearsed concerns for finality of judgment that are in no way unique to patent law. In contexts in which validity and infringement have not been adequately demonstrated, as in the preliminary injunction setting for an untested patent, the Federal Circuit readily sets aside the preliminary injunction if entered by a district court. *See, e.g.*, *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1342, 1366 (Fed. Cir. 2001) (vacating and remanding because of "substantial questions as to the validity of the [one-click shopping] patent").

Second, the Federal Circuit rule quoted above is correct insofar as both willful and innocent infringements should be routinely enjoined. If the opposite result were true, then any party that did not use due diligence to find out whether its conduct constituted infringement would be in the advantageous position of using its own neglect to undermine the legal protection otherwise available to a patentee. Potential infringers would have a palpable incentive to decrease inquiry into existing patent rights, which in turn would increase the number of infringement disputes. In all cases an infringer necessarily receives actual notice that his conduct has infringed from a cease

and desist letter from the patentee, or from a lawsuit. In those circumstances, the defendant's actual notice of the existence of the patents imposes on the defendant an obligation of due diligence. *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1379 (Fed. Cir. 2005). The ongoing dispute itself makes all infringements willful at the conclusion of litigation, even if they were not when the defendant first engaged in its infringing conduct. Of course, the distinction between innocent and willful infringes still remains relevant to the issue of enhanced damages and any overall assessment of the balance of hardships In these contexts willfulness bears the same meaning it has in other tort contexts, by covering cases where a defendant knowingly and deliberately decides to infringe another's patent.

Third, the basic rule awarding permanent injunctive relief should not be displaced solely because the U.S. Patent and Trademark Office (PTO) has ordered, or might order, a reexamination of the same patent. An order of a reexamination in no way guarantees that a claim of invalidity will be upheld by the PTO or confirmed by subsequent judicial review; denying an injunction solely on that basis will create a moral hazard prompting infringers to routinely seek reexamination in order to remain in business notwithstanding their infringement. The precise treatment of this question involves fact-driven, complex trade-offs. But there is no reason to explore those troubled waters here in advance of an actual controversy.

Fourth, the use of injunctive relief always raises ticklish questions whenever two courts have reached inconsistent judgments about the validity or infringement of particular patents. In such circumstances, the problem of fashioning proper relief is not restricted to the injunctive portion of the case. It is equally odd for damages to be awarded in one lawsuit when they are denied in another. We offer no general solution as to how inconsistent judgments should be treated, but we note that such considerations are not present in the current lawsuit, and we suggest that if this problem arises with any frequency, Congress should create some forum for the reconciliation of inconsistent judgments.

II. The Federal Circuit's Good Cause Requirement Does Not Require An Injunction to Issue in All Cases But Avoids The Dangerous Risk of Ad Hoc Determinations that Invite Unnecessary Legal Uncertainty

A. The Current Decisions of the Federal Circuit Strike the Right Balance between Excessive Rigidity on the One Hand and Unnecessary Confusion on the Other

All parties to this case agree, by the merits stage, that the basic rule on injunctions in the Federal Circuit is a "general" rule, and not a universal, mandatory one. The key point that separates the two sides in this case is a dispute over the scope of the possible exceptions and the legal standards that should determine them.

In contrast to the tight rule with narrow exceptions established by the Federal Circuit, the 52 IP Professors urge that the traditional principles of equity should be used on a case-by-case basis to determine when an injunction should be withheld. In addition, they insist that the recent decisions of that court have strayed from the appropriate statutory mandate, which provides, as they note, "that courts 'may' grant injunctions once infringement is found, but only 'in accordance with the principles of equity' and 'on such terms as they deem reasonable.' 35 U.S.C. § 283." 52 IP Professors, at 1. In their view, the basic standards that carry out this statutory mandate follow the equitable standard of relief announced in this Court's decision in *Weinberger v. Romero-Varcelo*, 456 U.S. 305 (1982), a suit brought under the Federal Water Pollution Control Act, 33 U.S.C. § 1351 *et seq.*, to prevent the United States Navy from discharging its ordnance into the navigable waters of the United States.

Their position misunderstands how the traditional rules of equity operate, by failing to acknowledge the rule-based nature of equitable principles. In addition, nothing in *Weinberger* undermines the rule announced by the Federal Circuit in the case below; nor does it show that they have disregarded the statutory mandate, on which the Federal Circuit has properly relied in numerous cases.

See, e.g., Odetics, Inc. v. Storage Tech Corp., 185 F.3d 1259, 1272 (Fed. Cir. 1999) (citing and applying § 283).

In approaching the case, the 52 IP Professors distill *Weinberger* to say that the four equitable factors that should be taken into account in determining equitable relief are "(i) whether the plaintiff would face irreparable injury if the injunction did not issue; (ii) whether the plaintiff has an adequate remedy at law; (iii) whether granting the injunction is in the public interest; and (iv) whether the balance of hardship tips in the plaintiff's favor." 52 IP Professors, at 1-2.

It is critical to understand, however, that the particular reasons offered in *Weinberger* for denying the injunction shed light on how these general principles should be construed. Most conspicuously, on the facts of that case, the plaintiffs had not shown that the defendant's discharges of naval ordnance had polluted the navigable waters of the United States. Given that key circumstance, therefore, the Supreme Court held that it was appropriate to order the Navy to apply for a permit under the Act, and to temporarily decline to issue the injunction until that process had run its course. *Id.* at 314-315.

The particular use of equitable principles in this case must be understood against the backdrop of *Weinberger's* internal reasoning, which looks very similar to the general patent rule that is chary of awarding preliminary injunctions before a clear invasion of right is proved. In addition, any differences between the two cases are explained in large measure by the fact that the Water Pollution Act is an elaborate administrative statute that contains a permitting process that is not present in the patent context. The closest analogy to this situation is one that would deny a patentee an injunction against acts that had not been shown to infringe, in order to allow the parties to negotiate any voluntary license if necessary. As such the reasoning in *Weinberger* does not show any tendency whatsoever to deny what the Federal Circuit has affirmed – namely, that injunctions generally issue as of course when both validity and infringement have been shown.

The recent decision of the Federal Circuit in *Fuji Photo Film Co.*, referred to above, is also consistent with

the general approach in *Weinberger*. In addition, it shows the careful way in which the Federal Circuit cabins discretion in injunctive relief cases. *Fuji* involved a complex overlap between an international trade dispute and a patent dispute. Fuji's patent claim was that Jazz had engaged in direct infringement of its patent when it imported from China into the United States certain types of disposable cameras, known in the trade as "lens fitted film packages (LFFPs)." One key issue was whether Jazz had taken certain discarded Fuji LFFPs and had repaired or refurbished them (which is permissible under the patent law), or whether it had reconstructed them (which is not permissible under the patent law). The trial judge, while "walking an evidentiary tight rope," *Fuji*, 394 F.3d, at 1375, found that 90 percent of Jazz's LFFPs were in fact illegally reconstructed and ordered damages in the form of a reasonable royalty on them. But the district court, in a move approved by the Federal Circuit, denied the injunction, for a number of reasons that do nothing to undermine the general rule. Its reasons give a good sense of the general approach in the Federal Circuit:

> The district court determined that Fuji's proposed injunction lacked specificity and reasonable detail as required by Fed. R. Civ. P. 65(d). Moreover, the district court held that even if Fuji's proposed injunctive language were more narrowly tailored it would still deny relief on three grounds: 1) the parties' discovery stipulation precluded injunctive relief for infringing activity after August 21, 2001; 2) the issues of proof would not necessarily adhere in a damages analysis for infringement after August 21, 2001; and 3) the ITC's [International Trade Court] injunctive relief, although not co-extensive with that of the district court, subsumed the relief that Fuji sought from the district court.

Id.

The decision in *Fuji* thus falsifies the blanket factual assertion of the 52 IP Professors that "[I]n no case in the last twenty years has the Federal Circuit permitted a district court to apply its equitable powers to refuse a

permanent injunction after a finding of infringement." 52 IP Professors at 2. (Their note 2, at 2 duly notes the differential treatment of preliminary injunctions.) More importantly, the approach followed in *Fuji* shows that a narrowly cabined form of discretion does nothing to undermine the security of exchange that depends on the strong protection of intellectual property. *See supra* at 7. No court should issue an injunction unless it is possible for the enjoined party to know what conduct is prohibited and what is not. Overbroad injunctions improperly curtail the defendant's right to conduct its own business as it sees fit, so any system of discretion must necessarily see that the remedy in question is tailored to the underlying wrong. In addition, parties seeking injunctive relief always have it within their power to avoid stipulations in discovery that preclude injunctive relief. Likewise, case-specific time limitations agreed to in one case have no precedential value in dealing with the next. And finally, the overlap between two distinct systems of relief (damages and injunctions) requires as much caution here, as the overlap between the general statute and the permitting process did in the clean water context in *Weinberger*. In short, the current practice of the Federal Circuit suffers neither from excessive rigidity on the one hand nor from incurable vagueness on the other.

Nor is there any reason to exclude from consideration alternative grounds for denying an injunction, none of which work to create further instability in property rights. The traditional equitable doctrines of laches and estoppel provide examples of how this can be done on a categorical basis. For example, in *Odetics, Inc.*, *supra*, the defendants were found to infringe plaintiff's patents for robotic tape storage systems, whose primary function is to store, organize, and retrieve videotapes or computer data tapes. The District Court judge first held that the plaintiff's tardy action in bringing suit constituted laches.

On appeal, one question before the Federal Circuit in *Odetics* was whether a permanent injunction should prohibit the further use of the covered equipment that was made and distributed during the pre-complaint laches period. The Federal Circuit denied the injunction. In so doing, it showed a sophisticated awareness of the interaction between

injunctive relief and damages. The patentee's laches barred its action for damages. Yet an award of an injunction would require users who were protected against damage suits to buy back the use of their own products. The only way to make good on the laches defense was to ban both remedies for that period, which the Federal Circuit did. *Odetics, Inc.*, 185 F.3d at 1273-74. The key point to note is that this exercise of discretion in no way threatens the stability of the underlying property rights in question. All that a patentee need do to obtain an injunction under the reasoning in *Odetics* is to bring a timely action, so that the power to receive the full protection of its property rights always lies in its own hands.

A similar analysis applies to the issue of estoppel, where the equitable principles are strong enough to deny the holder of a valid patent both damages and injunctions if the patent holder has engaged in improper conduct. The principle of estoppel operates in those cases in which the active conduct of a patentee leads some other party to believe that it has a right to practice the patented invention. These situations go beyond the narrower principles of legal estoppel in which a defendant seeks to derogate from its own valid license or assignment.

For example, the Federal Circuit held in *Wang Labs. v. Mitsubishi Elecs.*, 103 F.3d 1571 (Fed. Cir. 1997) that the infringer had properly inferred consent based on substantial affirmative acts by the patentee. The court further noted that although such estoppel is rare, it may be shown by sufficient proof based on the "entire course of conduct." *Id.*, at 1580-82 (relying on *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241 (1927)).

That these situations are rare is not a reason to doubt the sense of the legal rule from *Wang Labs*. It is a reflection of the sensible fact that in most high value deals the parties will negotiate adequate legal agreements, for the benefit of all. Yet *Wang Labs* shows that the principles of equity will work as an important barrier against sharp conduct.

As with cases of laches, the particular applications of the principle of equitable estoppel are likely to be fact-intensive, and their proper resolution necessarily requires

the use of judicial discretion of the sort that the Federal Circuit applied in *Wang Labs*. But three points are worthy of notice. First, the use of the principles of discretion did not necessarily require a jury trial. Some cases within the category are clear enough for judgments as a matter of law. Second, the application of estoppel principles in no way upsets the balance of strong property rights needed for commercialization, as the patentee has it always within its power to avoid the conduct that, depending on the scope of the estoppel, leads to the loss of past damages, injunctive relief, or both. Third, in some cases the extent of the reliance and the nature of the course of dealing could justify protection against injunctive relief – an issue not explicitly addressed in *Wang Labs*. For prospective relief by estoppel with real estate, *see Holbrook v. Taylor*, 532 S.2d 763 (Ky. 1976). In sum, it is possible to identify sensible categories of cases to which the principles of equity apply without resorting to case-by-case judgments of the social desirability of patents where none of the traditional grounds for equitable intervention is present.

B. Precedents on Injunctive Relief Drawn from the Law of Real and Personal Property Do Not Support Loose Standards of Discretion on the Question of Equitable Relief

The 52 IP Professors not only misunderstand the role of injunctive relief in intellectual property cases, they also overread the case law that governs the use of injunctions for trespass to chattels and to real property. In dealing with these materials, they claim that the "traditional principles of equity" invite the court to "consider such factors as adequate remedy at law, the balance of hardships to the parties, and the public interest in deciding whether to grant the injunction." 52 IP Professors at 4. The clear import of this statement is that "Courts regularly award damages rather than injunctive relief against invasion of real property when circumstances warrant." *Id.*

Yet the authority on which the 52 IP Professors rely is in fact consistent with the Federal Circuit's categorical approach, and not with their *ad hoc* one. In particular, they cite Michael A. Carrier, *Cabining Intellectual Property Through a Property Paradigm*, 54 Duke L.J. 1, 66-68

(2004), which offers these examples to explain why an automatic injunction rule is inappropriate – "averting a disaster, fleeing from an animal, reclaiming or removing a chattel, executing a court order, putting out a fire, making an arrest, and exercising free speech rights." All these, with the possible exception of the last, do not rely on any individual judgment that seeks to decide on a case-by-case basis when the injunction should issue and when not. Quite the contrary, they identify narrow *categories* of well-defined cases, far removed from the usual commercial dispute, in which it is appropriate to deny the injunction.

The common thread throughout these cases is that they all require the suspension of exclusive rights in land in order to deal with some disaster or calamity, or with the exercise of sovereign power. As such, these examples are simply application of the time-honored principle that the exclusive rights of private ownership must give way in narrow circumstances of necessity. Thus *Ploof v. Putnam*, 71 A. 188 (Vt. 1908) held there was a privilege to enter someone else's property in order to remove a private necessity but there is generally a duty to provide compensation. And *Vincent v. Lake Erie Transp. Co.*, 124 N.W. 221 (Minn. 1910) held that the rules on public necessity also allow the infringement of property rights, but normally dispense with any requirement of compensation.

Again, the categorical rule is very old. For example, *Mouse's Case*, 66 Eng. Rep. 1341 (K.B. 1609), held "that in a case of necessity, for the saving of the lives of the passengers, it was lawful for the defendant, being a passenger, to cast the casket of the plaintiff out of the barge, with other things in it." Likewise, *Mayor of New York v. Lord*, 18 Wend. 126, 129 (N.Y. 1837), held that it was "well settled" that the privilege was absolute "in cases of actual necessity, to prevent the spreading of a fire, the ravages of a pestilence, the advance of a hostile army, or any other great public calamity."

As these precedents indicate, the 52 IP Professors rely on cases that illustrate the ancient and general principle that ordinary property rights are suspended under conditions of necessity. To be sure, the likelihood that these necessities will arise in the context of intellectual property

is lower than it is with respect to tangible property, for it is highly unlikely that persons will need to infringe patents in order to escape with their lives. But the class of cases in which this issue is raised is not empty. Indeed, it is just those cases that are tracked by the Federal Circuit below when it references "public health" dangers as a category of reasons that could lead to a suspension of patent property rights. *See MercExchange,* 401 F.3d at 1338; *see also, Schneider (Europe) AG v. SciMed Life Systems, Inc.*, 852 F.Supp. 813, 861-62 (D.Minn. 1994) (acting in response to public health concerns to delay entry of injunction by a year to allow a transition period for doctors to changeover to non-infringing products).

C. The Proper Principles of Injunctive Relief Preclude an Unstructured Case-by-Case Review

With these principles firmly in mind, it is now possible to state with some clarity the differences that separate the methodology of the 52 IP Professors from our own (and that of the Federal Circuit). They are content, at least as a first approximation, with using the loose standard of discretion that allows a court to do some kind of a case-by-case analysis on whether injunctions will issue. In contrast, the Federal Circuit rightly refuses to analyze the problem one case at a time, and instead seeks to examine cases *by category* in order to develop a consistent but dynamic body of law to see when injunctions are allowed. We recognize that all cases cannot be put into a single category. The necessity cases necessarily involve different principles from cases where plaintiff loses the right to any injunction by waiver or laches. And these in turn differ from cases that reveal some uncertainty in the factual record, the interplay of multiple statutory regimes that could caution against injunctive relief, or a possible reexamination of patent validity in the PTO.

That said, it should be clear that the broad celebration of trial court discretion, on which the 52 IP Professors rely, should be understood not as the definitive analysis, but only as a preliminary exercise that precedes the more systematic effort to flesh out the loose standard of "when circumstances warrant." That shift to narrow and precise categories makes all the difference in judicial administration. If

the discretion afforded to a district court is as open-ended as the phrase "as circumstances warrant," then, regrettably every case becomes a crapshoot, so much so that there is no longer any general rule, let alone a universal one. Put differently, the standard for granting injunctions should never allow one court, but not a second, to say that it chooses to deny the injunction because on a balance of convenience the social welfare is better served by allowing the invention to be practiced upon the payment of a judicially determined royalty.

In this context, the 52 IP Professors are not faithful to their major premise, for they rightly backtrack from the social chaos that would ensue by rejecting any firm protection of property rights. *See* 52 IP Professors at 7. And they are rightly motivated to take the further step of insisting that their proposal to vest discretion in District Courts "does not amount to a Compulsory License." *Id.* at 9.

Unfortunately, at the same time they adopt these sensible categorical propositions, they cloud the remedial question in unnecessary obscurity. Their broad discretionary approach invites "fact-specific, case-specific applications of the principles of equity" to solve the problem on a retail level. *Id.* at 9. No dice. This fuzzy paean to individualized justice shows scant appreciation of the huge administrative cost and unpredictability that this open-ended inquiry would create, and offers no assurance whatsoever that dozens of District Court judges will exercise their supposed discretion in anything approaching a coherent and consistent fashion.

Recognizing, perhaps, how their muddy articulation opens up the dangerous possibility of routine compulsory licenses, the 52 IP Professors switch grounds by announcing that they would routinely grant injunctive relief "to patent owners who participate in the market, whether by selling the patented invention, exclusively licensing it to someone else who sells it, or selling a product not covered by the patent but which competes with the infringing product." *Id.* at 9. They also take a similar view that injunctive relief should routinely be given "against those who copy the invention from the patentee." *Id.*

There is evident tension between these categorical statements and their earlier insistence that sound judicial discretion requires that four general factors be at play in every case. *Id.* at 1-2, noted *supra* at 6. Yet the 52 IP Professors do not explain how the two portions of their program mesh with each other; nor do they supply *any* example that allows anyone else to discern when the per se rule is available and when the facts and circumstances inquiry is appropriate.

D. The Possibility of Patent Holdups is Generally Not a Justification for Denying Injunctive Relief

Fortunately, however, their brief goes out of its way to reaffirm in unqualified terms the soundness of the holding in *Continental Bag*. 52 IP Professors, at 5, note 4. That case stands for the proposition that the right to exclude inherent in a patent does not create a duty to use, any more than the ownership of land requires an owner to farm or build it. The 52 IP Professors argue, however, that the principle of *Continental Bag* is not applicable in those cases that pose special risk of holdups. *See* 52 IP Professors at 6. More precisely, they worry about the possibility of patentees who "can obtain revenue in excess of the value of the technology by threatening to enjoin products that are predominantly no infringing and in which the defendant has already made significant irreversible investments."

As a general matter, this proposition is surely overbroad, and threatens to undo the stability that the *Continental Bag* decision has long brought to this area. There is nothing more common than the designer of a technology incorporating other technologies acquired by license or other arrangement from an array of sources. If injunctive relief may well be refused whenever a defendant incorporates the plaintiff's patent into his own larger assembly, then we have an exception that is large enough to eviscerate the basic rule.

Second, the argument of the 52 IP Professors rests on an overconfident judgment that it is possible to determine the value of each component to a process that requires many separate components to succeed. In fact, standard

economic theory yields no unique estimate of the value of the different components that go into a common project, and thus does not afford any ready base on which to calculate the relative values of the various inputs. The entry of injunctive relief avoids that valuation nightmare.

In addition, there are affirmative reasons why injunctive relief is generally appropriate in this area. The first point is that the problem is in a real sense self-limiting. If the "predominant" value in any assembly lies in the noninfringing portions, then it should be relatively easy to work around the one or two elements that lies within the exclusive control of the patentee. And if there is no close substitute, then there is little or no reason to think that this key component does not deserve a large valuation in any proceeding, which in turn bolsters the case for injunctive relief. Nor is there any reason to worry about the occasional case in which successful work-arounds are not immediately available. In most cases, the potential infringer has notice of its exposure to liability when the suit is filed, so can seek to develop, license, or buy substitute technologies before final verdict. And in those cases where the time it takes for the lawsuit itself is not sufficient delay, the traditional understanding of equitable jurisdiction has always allowed courts to further delay the onset of an injunction in appropriate cases to ease the pain of a sudden or major transition. *See, e.g., Schneider*. It would be most unwise and unfair to penalize the patentee because the infringer has not taken full advantage of the grace period that effectively is created by these two delays.

This problem has often been advertised in more general form on the guise that the need to assemble multiple patents creates an unfortunate "anticommons," which makes it impossible for an entrepreneur to assemble all the pieces needed to complete some complex project. Yet the empirical evidence suggests a different conclusion. Far from being subject to endless holdups and blockades, in both industry and universities, researchers have beaten the supposed problem by adopting strategies of "licensing, inventing around patents, going offshore, the development and use of public databases and research tools, court challenges and simply using the technology without a

license (i.e., infringement)" to achieve their particular goals. J.P. Walsh *et al.*, *Working Through the Patent Problem*, 299 Science 1021 (2003). Put simply, there is no empirical evidence at present that supports creating a giant exception to the standard rule of injunctive relief to deal with the product assembly problem. *See* J.P. Walsh *et al.*, *View from the Bench: Patents and Material Transfers*, 309 Science 2002 (2005) (reporting empirical results demonstrating that "access to patents on knowledge inputs rarely imposes a significant burden on academic biomedical research.").

In addition, injunctive relief in these settings has real benefits that the 52 IP Professors ignore in their brief. One key advantage of injunctive relief is that it reduces the likelihood of infringing conduct in the first place. If the developer of an assembled product knows that it may be shut down or held up, it should take additional precautions – greater patent searches, more inclusive licensing, new inventions of its own – to obviate. In addition, in cases in which the patent infringement comes as a genuine surprise, a court could use its discretion to delay the enforcement of the injunction in order to facilitate the transition.

The conclusion on this point is not unique to the patent law but applies to areas of land law including nuisance and encroachment. In these cases, the use of injunctions is in general more common than is sometimes supposed in academic debates. *See generally*, Henry E. Smith, *Property and Property Rules*, 79 N.Y.U. L. Rev. 1719 (2004). The caselaw offers this example on encroachment: one landowner builds a large structure whose foundation is a short distance over the boundary line. One possible remedy is to allow the forced purchase whereby the encroaching owner pays his neighbor the fair market value of the small strip of land taken. That approach is generally rejected and the landowner is usually allowed to require the removal of the structure, even at high positive cost. *See Geragosian v. Union Realty Co.*, 193 N.E. 726 (Mass. 1935). In that case the Court proceeded just as did the Federal Circuit below, by identifying the reasons that either fail or suffice in justifying the injunction:

> The facts that the aggrieved owner suffers little or no damage from the trespass, that the wrongdoer

> acted in good faith and would be put to disproportionate expense by removal of the trespassing structures, and that neighborly conduct as well as business judgment would require acceptance of compensation in money for the land appropriated are ordinarily no reasons for denying an injunction. Rights in real property cannot ordinarily be taken from the owner at a valuation, except under the power of eminent domain. Only when there is some estoppel or laches on the part of the plaintiff or a refusal on his part to consent to acts necessary to the removal or abatement which he demands will an injunction ordinarily be refused.

Id. at 728 (citations omitted).

Oftentimes the doctrinal explanation for this result is that the right in land is a right to exclude, period. But the functional explanation is that being tough in a small number of cases may cause needless disruption in them – but at the same time it produces a long-term systematic gain because it reduces the number of infringements that take place. There is, at the edge of this doctrine, some small degree of discretion, which is not exercised in cases of deliberate trespass but may be exercised in cases of innocent trespass (*i.e.* those discovered only after completion). But the overall tenor of these cases indicates that the common law decisions on this matter do not display the flexibility that the 52 IP Professors attribute to them.

In addition to this general claim about the overall risk of holdups, the 52 IP Professors advance the more specific claim that the royalty rates may depend on whether a patent is incorporated into a standard. "For example, one patent owner charges a 0.75% royalty for patents that don't cover industry standards, and 3.5% for patents that do cover industry standards. Mark R. Patterson, *Inventions, Industry Standards, and Intellectual Property,* 17 Berkeley Tech. L. J. 1043, 1059 n. 61 (2002)." 52 IP Professors at 6. But this claim in the Patterson article, which is supported only by citation to news stories for factual support, is in fact false. The patented technology in that case was incorporated into two standards adopted by a standards setting organization. The patentee subsequently

successfully sought royalties of 0.75% for one of the standardized products and 3.5% for the other. The difference in rates between these two standardized products turned on the fact the latter incorporated more of the patented technology. The patentee also licensed its patents for an unstandardized product at 2%. *See* Initial Decision, *In the Matter of Rambus, Inc.*, FTC Docket No. 9302, Findings of Fact Nos. 502, 1546, 1558 (Feb. 23, 2004).

In addition, what is missing from their conclusion is an institutional understanding as to how this problem arises and how it may be avoided. The moment that the technology embedded in a particular patent is incorporated into a standard, by definition, the opportunities to invent around, or to substitute in alternative technology are effectively scotched, so that the reactive patterns noted in the works by *Walsh et al.*, *supra*, are much less available. In order to deal with this predictable and regular risk, some standard-setting organizations by contract require their members to disclose any issued patents they have that relate to the standard, and some impose limitations, *ex ante*, on the royalties that can be charged. *See*, *e.g.*, Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889, 1904-07 (2002) (reviewing data on existing practices). The early warning system knocks out the holdup problem before it arises.

There are breakdowns in this system, but these tend to arise when a patent holder is able to improperly avoid its obligations under the rules of the standard setting organizations in which it participates. The solution to this problem (if it arises) lies in the drafting of clear rules regarding participants' obligations, and in the use of traditional principles of tort and contract law to sanction improper behavior. It does not lie in the alteration of the settled law on injunctive relief for patent infringement.

E. The Possibility of Patent "Trolls" Does Not Generally Justify the Denial of Injunctive Relief

The holdup question to one side, the question remains whether it is possible to advance some other reason to reject the Federal Circuit's approach to injunctive relief. Although the 52 IP Professors offer no other explicit

rationale, they appear to fear that the decision below allows patentee holders to behave like a "patent troll" – a common phrase that is, however, not used in their brief. The source of this anxiety is that "patent trolls" hold their patents neither for development nor for prospective licenses, but solely to holdup others who accidentally stumble in their path.[2]

As an initial matter, it is difficult to make any sensible estimation of the size and scope of the "patent troll" problem, due in no small part to the various and shifting definitions of what constitutes "troll" behavior. The discussion reflects ambivalence about early inventors in new technologies, who are on the one hand often said to deserve broad protection for their pioneer patents, and on the other are often accused of being "trolls" by lying in wait without actually taking steps to commercialize their technology. Alternatively, the concern about "trolls" might reflect anxiety about the uncertainty of the scope and validity of patents, as well as the high cost of patent litigation – both of which provide potential opportunities for "trolls" to exploit even weak or low-value patents. In all

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[2] One popular account of patent trolls runs as follows.

> These are lawyers and investors who buy cheaply or assume control over paper patents, mistakenly granted largely to failed companies, explains David Simon, computer firm Intel's chief patent counsel.
>
> The trolls can use these patents to threaten to shut down the entire computing industry with a court ordered injunction, no matter how minor the feature that has been patented is.
>
> Mr. Simon cites one case where a patent troll claimed a patent they had bought for about $50,000 was infringed by all of Intel's microprocessors from the Pentium II onwards and that they were seeking $7 billion in damages.
>
> In the end, the case was thrown out by the court, but it still cost Intel $3m to fight it, Mr. Simon says.

Maggie Sheils, *Technology Industry Hits out at Patent Trolls*, June 2, 2004, available at http://news.bbc.co.uk/1/hi/business/3722509.stm.

Note that this definition focuses on weak patent claims and damage actions. It does not speak to the choice between damages and injunctive relief.

cases, the question relevant to the inquiry in this case is whether injunctive relief can be fashioned in such a way that it maintains the expectations of all patentees without giving an undue benefit to patent trolls.

The first question here requires a real estimation of the seriousness of the problem. The price society pays by looking for the "troll" depends heavily on the likelihood that they will be found. If that is infrequent at best, then the cost here is that any weakening of injunctive relief has the unhappy consequence of undoing the system of voluntary licensing for valid patents that lies at the core of industrial commercialization in thousands of instances. But the identification of "trolls" is sure to be a chancy business at best – more like looking for a needle in a haystack. That search will become even harder, for once a definition is put into effect, then the formerly-passive "trolls" will have an incentive to engage in modest, arguably inefficient, licensing efforts to preserve their blocking position, assuming it was important in the first place. Indeed, finding the "trolls" will become ever harder once the law tries to carve out a special rule to deal with them. In any event, this case is a bad vehicle through which to launch a new investigation at the Supreme Court level.

In addition, denying injunctive relief (for reasons that go beyond the traditional cases like estoppel, laches, definiteness and the like) does not solve the problem if the troll is still entitled to actual, and even enhanced damages, for what is, after all, a willful infringement of a valid patent. Those other remedies are potent enough to offer real inducements to any "trolls," however identified. Indeed to the extent that enhanced damages might be increased if injunctions are denied – which cannot be ruled out a priori – little of value may be done to combat the problem.

The case for creating any anti-troll rule, moreover, does not seem all that strong because any party that is intent in playing the role of a patent troll has to pay a steep price of admission to join this club in any event. All patents are wasting assets, with less than a 20 year life, and subject to the defenses based on laches and estoppel. Second, any party that forgoes the decision to develop or

commercialize loses income today that has to be recouped tomorrow. The situation here is eerily reminiscent of the situation with predation – whereby it is said to be an antitrust offense to sell today at below cost, in the hope (often vain) to recoup those costs in some future period when there is little or no reason to be confident that the initial predator will be able to succeed. *See Matsushita Elec. Indus. v. Zenith Radio Corp.*, 475 U.S. 574, 588-594 (1986). *See also, Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209 (1993). We think that there is a very low probability that this will occur, and think further that there is no reason to explore what might be done with "trolls" in the context of a case that does not raise the problem. It is conceded on all sides that it is rational to avoid using one patented technology in order to develop another. Just as no landowner is under a duty to plant crops, so no patent holder is under a duty to exploit its patent.

We can push the land analogy one step further. Just as a fallow plot of land may attract offers for development, so a patent posted on the PTO web page and searchable for free, as all are, provides sufficient information to attract anyone seriously interested in practicing the covered technology. A patentee who is not looking to sell or license is not beyond reach of those who wish to buy or license.

In addition, the financial risks of seeking an injunction do not fall solely on the infringer but also on the patentee, who knows that if he exercises the option to hold out entirely he has to forego the substantial sums of revenue that he otherwise could receive under a licensing agreement. Those economic forces on both parties help explain why, once the court made clear an injunction was imminent, even the infamously bitter litigation over the Blackberry service settled before any disruption of service took place. What is more, the settlement price in that case is both significantly below independent estimates that reflect the holdout risk, and even more significantly below the licensee's reserves of cash and cash equivalents. *See*, Mark Heinzl & Amol Sharma, *RIM to Pay NTP $612.5 Million to Settle Blackberry Patent Suit*, Wall St. J., March

4, 2006, at A1 (noting that settlement estimates ranged to above $1 billion and that infringer's reserves of cash and cash equivalents were about $1.8 billion).

In any event, denying an injunction whenever there are adequate opportunities for the infringer to license, buy, or challenge the patent would create perverse incentives. What is more, finding the cases of "trolls" may turn out to be looking for a needle in the haystack. But there is no need to explore or resolve these numerous, fact-driven, complex trade-offs in advance of an actual controversy.

Finally, there does remain some question about what kinds of practices might count as abuses that should draw judicial attention. Without any reference to the particulars of this case, we can think of two such circumstances wherein a party enters into sham licenses with a related party in order to, one, create the appearance of patent validity, or, two, to establish an incorrect value for the patent for use in other damage actions against strangers. But we think that the usual rules against fraudulent transactions would allow a defendant in an infringement case to dispute the bona fides of the license in the first setting and the designated valuation in the second. There is no evident reason why the general rules of patent remedies should be shifted for this reason.

F. In the Instant Case the Federal Circuit was Right to Hold that the Record Showed No Extraordinary Circumstances Sufficient to Deny an Injunction

In light of the forgoing analysis, it should be clear that the Federal Circuit was right to think that this case offered no grounds for denying the injunction. *See MercExchange*, 401 F.3d at 1338-39. The argument that a growing concern with business method patents should call for a different standard is a proposition that invites chaos in this area. *See infra* at 29. It almost goes without saying that a court should never deny an injunction because a case is hotly disputed, unless it wishes to ask parties to take extreme positions to avoid equitable relief. *See infra* at 26-27. Similarly, it would be unwise to deny an injunction simply because there is risk of continuing dispute triggering the need for contempt

proceedings. *See infra* at 29. There is no reason as a matter of public policy for any court to act as an industrial czar by denying injunctive relief to parties who choose to license, not practice their patents. *See infra* at 27-28. Finally, it is irrelevant whether a patentee has sought a preliminary injunction. *See infra* at 30.

In sum, this case does not present any circumstance that remotely resembles those in which a court in its sound discretion should refuse to issue an injunction. As this brief has shown, the Federal Circuit has done an admirable job in deciding when and why a permanent injunction should be awarded. In fact, its decisions have examined the various arguments urged to deny injunctive relief one by one, and have across the board been able to separate the wheat from the chaff. The point here is not only true as a matter of precedent, but as we show in our next section, as a matter of sound public policy as well.

III. A Sound Public Policy Strongly Favors the Categorical Approach of the Federal Circuit

A. The Parties, Not the Courts, Should Make the Key Decisions on Patent Deployment

There are important reasons for leaving negotiations over patents to the parties, not the courts. In particular, the current regime on injunctive relief enhances certainty, improves predictability, encourages timely resolution of disputes, and conserves judicial resources.

First, by limiting the circumstances under which an adjudged infringer can reasonably expect to escape injunctive relief, the Federal Circuit's approach provides much-needed certainty and transparency to the process of patent enforcement. The law has consistently held that patents are "rights against the world" because predictability stemming from that view of the world is valuable not only to parties to live disputes, but also for all actors who work and trade in the relevant marketplace. This property rights regime helps build the stable investments and relationships needed to get inventions commercialized. Such predictability also helps encourage private resolution via licensing or assignment for whatever disputes do arise.

Second, the current regime favoring permanent injunctive relief encourages parties to patent disputes to resolve differences at earlier stages of the litigation, by removing most of the uncertainty related to the remedies that will follow a finding of infringement. This is especially true in contrast to the ad hoc, open-ended analysis urged by the 52 IP Professors, which places the question of granting permanent injunctive relief (which comes at the end of the proceedings) as a major decisional point in patent litigation, thereby increasing the likelihood that parties will litigate to that point.

Third, by carefully limiting the circumstances under which the district courts must engage in a full-blown cost/benefit analysis of a permanent injunction, the present approach conserves judicial resources. More specifically, the strong default rule discharges a valuable gate-keeping function – ensuring that only those cases where serious public policy concerns arise are afforded a difficult and intensely-fact driven analysis concerning an injunction.

Fourth, the strong property rule aids in the successful commercialization of patented products. That elaborate process of bringing new products to market inevitably requires deals to be made at all stages of development. We can therefore expect as a matter of course that disputes will occur both early and late in the commercialization process. At all stages, however, the deals that get struck around patents are complex. Setting the right price alone requires an immense amount of information that already is in the hands of the parties themselves. It is for this reason that commentators have expressed concern that courts will err by setting the price either too low or too high. The former will lead to a rush to overuse the product. The latter will block its deployment unless the parties bargain around the judicial price. But either way the error and administrative costs, will be far higher than for voluntary exchanges.[3]

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[3] *See* Richard A. Epstein, *A Clear View of The Cathedral: The Dominance of Property Rules*, 106 Yale L.J. 2091 (1997) (noting the general under compensation problem associated with allowing courts to

(Continued on following page)

Often price is not the only important term in these deals and courts are woefully inadequate compared to the marketplace for determining and enforcing these other terms. While private ordering among parties can lead to textured contracts having many terms including price but also including a host of seemingly esoteric and unique provisions – such as technical support, field-of-use or territory limitations, grant-backs, cross-licenses, payment schedules, most-favored-nation provisions, etc. – a court imposed damage award is in all but the rarest of cases reduced to a simple monetary amount. Insofar as permanent injunctions only enforce patent rights, they set the stage for voluntary transactions by way of license or assignment. As noted earlier, there is no consistent fear of holdups that justifies weakening the rules of injunctive relief.

B. Limiting the Application of Permanent Injunctions Is a Poor Tool with which to Address Patent Quality Concerns

By all accounts, the oft-expressed concerns about the quality of issued patents is an important public policy issue facing the patent system today. Nonetheless manipulating the standard for granting permanent injunctions offers an exceedingly poor vehicle to respond to that issue.

First, a question of whether to award a permanent injunction arises only after a patent has been adjudged valid and infringed. Thus, among all issued patents, those patents that become the basis of a permanent injunction have survived the rigors of litigation, and thus are ones about which there should be the greatest confidence regarding validity rather than the least. Penalizing the holders of relatively high-quality patents (those adjudged to be both valid and infringed) as a mechanism to defeat the effect of low-quality patents is more than deeply ironic. It also illuminates the attenuated link between the remedies

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set a price for infringement rather than enforcing a property right with an injunction). *See also* Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 Colum. L. Rev. 2655, 2664 (1994) (noting that injunctions generally make sense because private parties have a comparative advantage over courts in valuing patents).

offered to valid and infringed patents and the marketplace effects of issued-but-invalid patents.

Any rule that greatly diminished the likelihood for a permanent injunction is unlikely to be beneficial on net. First, any social gains accruing from reducing the power (the expected value of the results of litigation) of low-quality patents would be offset by the social losses resulting from reducing the power of valid patents. Second, since the courts are far less likely than the parties to correctly set the terms of licenses to valid and infringed patents, the real effects of such a rule are wildly unpredictable.

Finally, if low-quality patents increase the level of marketplace uncertainty, then it only makes matters worse, not better, to inject an additional layer of profound unpredictability into the patent enforcement process. That uncertainty at the remedial stage will reflect itself in the reduction in investment in innovation, which in turn could give low value patents a larger role in the marketplace than they now have. The direct attack on patent quality is far superior to altering the rules on remedies, where the new uncertainty falls on high and low-quality patents alike.

C. Denying an Injunction on the Basis of a Patentee's Negotiating Approach Is Perverse

The Federal Circuit has rightly resisted the suggestion that any decision to treat a case as exceptional should turn on whether attempted negotiations have broken down because the patentee improperly decides to holdout. In principle, it is far from clear-cut whether a refusal to deal is inefficient. For example, the patentee may not want to offer a license to the infringer because the patentee wants to facilitate its own commercialization efforts. Or the patentee may choose to license a different party on an exclusive basis. Or a patentee may holdout because it wants to cross-license other patents, not merely to receive a royalty. Frequently, both parties actually are holding out when the deal breaks down. It is therefore dangerous at the remedial stage of a trial to act as though only the patentee has engaged in holdout behavior, without knowledge of the full pattern of business negotiations.

What is more, this proposed test suffers from a fundamental circularity that would create perverse, harmful incentives. If the ability to avoid the injunction hinged upon the failure of a deal getting done, then there would be a markedly increased incentive for those wanting to obtain use through court-ordered terms to resist striking licensing deals. A legal test that rewards a failure to cooperate would lead to a decrease in cooperation, not an increase.

D. The Patentee's Business Model Should Be Wholly Irrelevant to the Choice of Remedy in Infringement Cases

First, as a fundamental matter, the federal courts simply should not be evaluating the appropriateness of patentees' business models. It would be profoundly imprudent to base the test for an exceptional case on whether the patentee is "practicing the patent." The only way a patentee extracts economic value from a patent is if the patentee or its licensee practices a technology that is covered by the patent or in competition with a covered technology. It is difficult to imagine a rational actor who will first spend the significant costs to obtain a patent and then defend it in litigation, without seeking to extract economic value from its investment.

Second, many patentees' entire business models are tied to their expertise in inventing and developing technologies, but not manufacturing them. Other patentees may have exited an entire line of business for which they have developed a large portfolio of patents. In either case, such patentees may need to engage in hard bargaining with parties that own the complementary assets it must use to commercialize its own invention. It takes time to develop large facilities for manufacturing, distributing, and marketing, and to find the right business partners for these tasks. Hinging the right to a permanent injunction on whether patentees already are "practicing" the patent puts them in an intolerable position. Either they accept terms offered by an earlier comer or risk losing their exclusive position.

Third, the use of a permanent injunction may facilitate cooperative bargaining, not frustrate it, forcing outsiders to license technologies they wish to use. *See MercExchange*, 401 F.3d at 1339. Awarding the permanent

injunction allows agreement on terms acceptable to the patentee, which has the salutary effect of forcing an actual or would-be infringer to the bargaining table. A patentee has strong economic incentives to license in such cases, so as to gain ongoing value from its innovation, precisely because the patentee is non practicing. It would be particularly destructive to deny the permanent injunction to a patentee who had tried to commercialize but failed because it could not raise sufficient funds. The supposed "patent troll" may actually be a small entrepreneur trying desperately to negotiate with large infringers.

Absent the availability of such a business model, society would be forced to rely solely on large, vertically integrated firms for basic research and development. The literature on the theory of the firm generally recognizes the inherent tension between controlling transaction costs when working together in an open market on the one hand, and solving problems of agency costs, asset specificity, and opportunism when working together within the hierarchy of a firm on the other hand.[4] While no single balance works to reconcile these two concerns in all cases, any rule that makes access to an injunction contingent on whether a patentee is practicing the invention would provide an incentive inefficiently to shift industrial organization too far in the direction of integration and hierarchy. The greater the number of available business models the better. There is nothing that says that technical innovators and business managers necessarily belong in the same firm. Separating the research from the development business may allow for an efficient division of labor between innovation and production.

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[4] *See, e.g.*, Ronald Coase, *The Nature of the Firm*, 4 Economica 390 (1937); Oliver E. Williamson, *The Economic Institutions of Capitalism*, 20-21 (1985). Agency costs refer to the conflict of interest between a principal and agent, which could lead to underinvestment by the agent; asset specificity refers to the bargaining risks that arise when one party invents an asset that is used only in a particular business. Opportunism refers to any situation where a party backs out on a promise after the other side has committed its resources.

E. Denying an Injunction on the Basis of the Type of a Patent or Its Perceived Scope Is Impermissible as well as Unwise

Last, it is a mistake to let the validity of a patent, or the choice of remedy, turn on whether the litigation involves a "business method" patent instead of a more traditional industrial invention. First, that test would impose an additional definitional burden, for the distinction between business patents methods and, say, software patents, will prove far from elear in many cases. The problem is likely to become quite acute in patent filings that contain multiple related claims. For example, these line drawing problems had proved so famously problematic in the courts, that the Federal Circuit concluded it made no sense under existing law to adopt some special rule for business method patents. *See State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998). Any public policy concerns with business method patents should be addressed at the legislative level.

In a similar fashion it would be most unwise to allow the choice of remedy in infringement cases turn on deciding whether other parties might be able to design around the patent. That approach raises unnecessary problems of line drawing and efficiency. As the Federal Circuit noted, "A continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendants' conduct continued to violate its rights." *MercExchange*, 401 F.3d at 1339. Indeed, it may be less expensive to resolve such disputes in the context of contempt proceedings to enforce the injunction than injecting them into full blown infringement litigation. Worse still, any inquiry into designing around creates an unhappy form of circularity. If parties know that they must design around a patent, they are more likely to do so. If they think that they can, by not designing around, force the license from the patent owner, they will be less likely to do so. That level of effort will in turn act as a self-fulfilling prophecy. If people are told that they do not have to design around, then they will report that they have not been able to do so. Put differently, they

will then have the incentive to expend ingenuity in litigation, not on innovation.

F. It Is Irrelevant Whether a Patentee Has Sought a Preliminary Injunction

Finally, letting the test for a permanent injunction turn on whether the plaintiff sought a preliminary injunction misunderstands the goals of the two types of injunctions, and the relationship between them. As the Federal Circuit correctly pointed out: "A preliminary injunction is extraordinary relief that is available only on a special showing of need for relief *pendente lite*; a preliminary injunction and a permanent injunction 'are distinct forms of equitable relief that have different prerequisites and serve entirely different purposes.' *Id.* (quoting *Lermer Germany GmbH v. Lermer Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996)). And as with the other proposed tests, the incentives created by this test would be perverse. If the test for a permanent injunction hinged on whether the patentee had sought a preliminary injunction then patentees would have inappropriately increased incentives to seek preliminary injunctions before the validity and infringement of their patents had been tested, simply to preserve their ability to obtain a permanent injunction if and when they prevail on the merits.

CONCLUSION

Amici respectfully urge this Court to affirm the Federal Circuit's decision and confirm the court's long-standing rule that absent exceptional circumstances a permanent injunction should issue to enforce a patent adjudged to be valid and infringed.

Respectfully submitted,

RICHARD A. EPSTEIN
1111 East 60th Street
Chicago, IL 60637
(773) 702-9563

R. POLK WAGNER
3400 Chestnut Street
Philadelphia, PA 19104
(215) 898-4356

F. SCOTT KIEFF
Counsel of Record
One Brookings Drive, CB 1120
St. Louis, MO 63130
(314) 935-5052
Counsel for Amici Curiae

March 10, 2006

APPENDIX - LIST OF AMICI*

Professor Andrew Beckerman-Rodau
Professor of Law and Co-Director Intellectual Property Law Concentration
Suffolk University Law School

Professor Steve Calandrillo
Professor of Law and Washington Law School Foundation Scholar
University of Washington School of Law

Professor Richard A. Epstein
James Parker Hall Distinguished Service Professor of Law
University of Chicago
Peter and Kirsten Bedford Senior Fellow
Hoover Institution, Stanford University

Professor Gerald Faulhaber
Professor of Business and Public Policy
Wharton School, University of Pennsylvania
Professor of Law
University of Pennsylvania Law School

Professor Thomas G. Field, Jr.
Professor of Law
Franklin Pierce Law Center

Professor Craig Steven Jepson
Professor of Law
Franklin Pierce Law Center

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* Representative organizational affiliations of all signatories are provided for identification purposes only. Some amici have additional of counsel, consulting, or other relationships with law firms, corporations, or other organizations. In no case do the undersigned purport to speak for any organization and the views expressed here should not be attributed to any organization. The views expressed here are the personal views of the amici.

Professor F. Scott Kieff
Associate Professor of Law
Washington University in St. Louis, School of Law
Research Fellow, Hoover Institution, Stanford University

Professor David J. Teece
Mitsubishi Bank Professor of International Business and Finance Director, Institute of Management, Innovation, and Organization
Haas School of Business, University of California, Berkeley

Professor R. Polk Wagner
Professor of Law
University of Pennsylvania Law School